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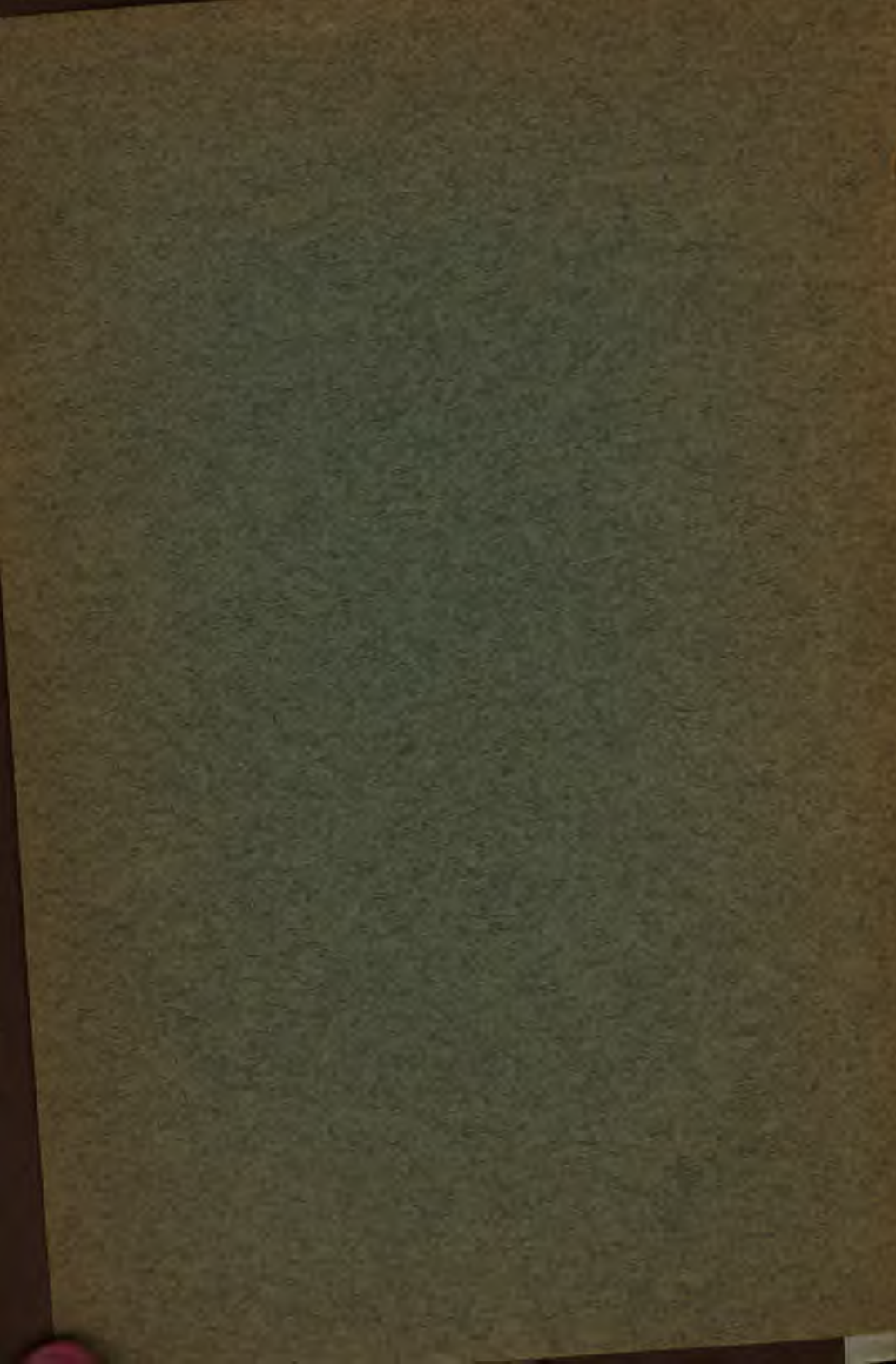
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How Protection Grows

By G. H. PERRIS

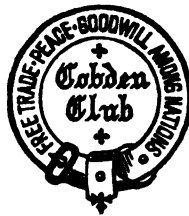


CASSELL AND COMPANY, LTD.
London, New York, Toronto and Melbourne
1910



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How Protection Grows

"To him that hath shall be given, and from him that hath not shall be taken away, even that which he hath."

I.—THE SCIENCE OF TARIFF-MONGERING.

THE system of disguised grants out of the public purse to wealthy persons, known as Protection, varies, as do honest methods of taxation, from place to place; but it has certain general characteristics, which can be traced through all the phases of tariff-mongering back to the base motives that were exposed long ago by Adam Smith, Peel, Cobden, and Bastiat. The latest fiscal artifice is always for its authors a "scientific tariff," which only means that it is the utmost tribute that can be wrung in a given place at a given time out of an ignorant people. In new countries the pretence is universal that a Customs barrier is needed to enable infant industries to establish themselves. But actual experience shows that, so far from being reduced in proportion as the favoured trades become established, the Customs duties always continue to grow. In old countries the universal argument is that, even if the nation has to pay dearly, it is an advantage that national industry should be preserved against foreign competition. And so we have the extraordinary spectacle of a number of highly

developed countries, each of them constantly raising their tariff barriers against the others, and yet each of them constantly buying more and more foreign goods.

This paper is, in the main, a study of the motives and methods of the growth of tariff favours to privileged industries in the United States and the German Empire. These are the lands chiefly held up to us as models, by reason of their "scientific" tariffs; and it is, as we shall see, no mere coincidence that they are, also, lands immensely rich in natural resources, and enjoying over an immense internal area the benefits of Free Trade; lands, at the same time, weak in their national tradition, which is of comparatively recent growth, and in the power of their people over the machine of national government.

A superficial glance at the facts will show how little justification they afford for the hope that protective duties can ever be kept within modest limits. If there is anything in regard to which their advocates can be made to feel some scruple, it is surely the bread tax. But the following table of import duties on wheat (per imperial quarter) in three leading corn-growing countries during the last quarter of a century shows the force of agrarian greed when once it is awakened to its power in the Parliamentary lobby:—

	FRANCE	PRUSSIA	UNITED STATES
1879	1s. 1d.	2s. 2d.	6s. 10½d.
1885	5s. 2d.	6s. 6½d.	—
1887	8s. 8d.	—	—
1888	—	10s. 10½d.	—
1891	—	—	8s. 7d.
1892	—	7s. 7½d.	—
1894	12s. 2d.	—	—
1906	—	11s. 10d.	—

A wider review of the growth of protective duties in these three countries is afforded by figures given in the

Blue Book "British and Foreign Trade and Industry" ✓
(1909, Cd. 4954), which may be summarised as follows:—

Annual Averages	Total Duty Collected £ Millions	Percentage of Total Duty.		
		Food & Drink	Raw Materials	Manufactures

UNITED STATES.

1890-4	39	19'81	10'59	69'35
1895-9	34	32'42	9'95	57'46
1900-4	52	35'68	12'59	51'46
1905-8	60	29'52	14'81	55'37

GERMANY.

1890-4	18	74'09	3'96	21'95
1895-9	23	71'99	5'65	22'36
1900-4	26	72'34	5'74	21'92
1905-8	33	74'97	5'24	19'79

FRANCE.

1890-4	16'8	71'78	16'90	11'32
1895-9	17'3	67'36	19'80	12'84
1900-4	16'2	59'36	23'90	16'74
1905-8	18	55'40	25'59	19'01

It will be seen that the prevalent type is Agrarian Protection in Germany and France, and Industrial Protection ✓ in the United States, where, however, foodstuffs figure very largely in the tariff. In France and the United States raw materials are also substantially taxed. The very large increase of Customs revenue in Germany and the United States covers the two, only apparently contradictory, phenomena—a continual rise of protective duties, and a continual rise in the amount of foreign goods consumed.

In an amusing sketch of how tariffs are made, an American writer (Mr. Charles Edward Russell, in "Hampton's Magazine") pictures a popular meeting to demand a lowering of the duties. The chairman rises

and declares in a loud voice that "the time has come to reduce the Tariff." "This," says Mr. Russell, "he continues to repeat steadily, until the chorus seated at the rear, and, I regret to state, much inclined to slumber, wakes up, and in unison cries: 'The time has come to reduce the Tariff.' Then enter about seventeen stately persons known as the Ways and Means Committee of the House. They sit around a large table adorned with books (stage properties) and many documents that are called schedules. The Chairman picks up one of these, and says: 'We will now proceed to reduce the Tariff, beginning with the woollen schedules.' Instantly a loud wail of anguish pierces the air, and two thousand starving millionaire woollen manufacturers rush in, and fall upon their knees before the committee. In voices choked with sobs they relate their sorrows. They are already upon the Brink of Ruin; with the utmost difficulty they Keep the Wolf from the Door. Of all the millionaires of the world, they are the poorest and most deserving, and nothing but the existing Tariff keeps them alive. The committee is, of course, much affected, and instantly agrees to Reduce the Tariff elsewhere than on woollens."

The same scene is re-enacted with every schedule. New groups of poor millionaires convince the committee that if their subsidy is reduced they will be ruined—or, at least, that they will have to stop their campaign subscriptions; and, in the end, we find that the Tariff has, indeed, been reduced—that is to say, "acorns, asafetida, and perry-winkle shells have been placed on the free list, and the duty has been reduced 50 per cent. on dried, devilled, and bifurcated nutmegs, not more than half wood. The happy chairman rings down the curtain. Little children, the entertainment is over."

But there is something grave and even tragic behind this little comedy. So far as it consists in the openly

piratical proceedings of the great Trusts, and the methods of retail corruption which protective tariffs everywhere create, we shall deal with it more fully in a separate pamphlet, here sketching the more general characteristics of the process by which Tariffs grow.

II.—UNITED STATES TARIFFS : (A) BEFORE THE CIVIL WAR.

THE first American protective tariffs were those imposed at the close of the Revolutionary War by the individual States, then only loosely confederated, against each other. Colonial shipping had been destroyed or had decayed ; and duties on imports appeared to be a necessity both for revenue purposes and for the encouragement of internal industry. The States were jealous of each other, and refused to give up to Congress so strong a power as that of levying duties. Massachusetts had its own Navigation Act ; Pennsylvania set up protective duties averaging $2\frac{1}{2}$ per cent. in 1785 ; and in the same year New York followed suit. But union was essential, and the ease of collecting indirect taxes was a much more cogent argument than it can be to-day. In 1787 the famous Federal Convention met at Philadelphia, with George Washington and Alexander Hamilton as its leading figures. Three years later the first Federal Tariff was adopted, Washington declaring that "the safety and interest of the people require that they should protect such manufactures as tend to render them independent of others *for essentials, particularly for military supplies.*"

The main object, however, was to provide means of liquidating the debts incurred during the War of Independence. It was inevitable, too, that, fresh from this heroic effort, with a hinterland of immeasurable promise gradually opening before the stream of immigration, statesmen mainly drawn from the old colonies of the

Eastern seaboard should dream of holding the new markets thus being created against their ejected kinsmen of the Old World. At least they established the largest Free Trade area history has yet seen—a family of States whose internal commerce passes over an area practically equal to that of Europe without the interference of a single Customs House. It was an incidental provision of the Federal Constitution, reflecting something of the State jealousy still predominant, that, while Congress can tax imports, it cannot tax exports from a State. The great tariff power over imports then reserved to the union became in after years one of the chief fields of struggle between the two great American parties, afterwards called the Republicans and the Democrats—the one the party of centralisation, the other the party of local self-government; the one the party of large national income and expenditure for the encouragement of national enterprise, the other the party of low taxes and economy; the party of Protection and the party of relative Free Trade. Ninety per cent. of the population were then engaged in agricultural pursuits; and it is probable, as, indeed, Hamilton himself declared, that the British Corn Laws, at that time very nearly prohibitive, did much to destroy the appeal of the idea of commercial freedom in America, while, in the second and third decades of the last century, there was perpetual complaint of British “dumping.”

For many years Protection was rather an answer to the restrictive policy of other nations than a policy of bounties for manufacture. The rates of the first tariff averaged $7\frac{1}{2}$ per cent. In 1808 they had risen to about 13 per cent. Then, for a number of years, the costs of warfare and its destructive effects upon oversea trade led, on both financial and industrial grounds, to an increase of duties. In 1812 iron and cotton imports were taxed 25 per cent. *ad valorem*. In 1816 the first decidedly Protective tariff was imposed,

the average duty amounting to 20 per cent. The cry for the means of political independence as against foreign countries was one of the strongest supports of the new policy. In subsequent years periodic financial crises, really caused by the mania of speculation, were regularly attributed to momentary lowerings of the tariff, and panic was brought in to aid the suspicions and prejudices common to all Protectionist development. In 1824 cotton and woollen imports were subjected to duties of from 25 to 33½ per cent. The manufacturers in these industries, especially in New England, had become a power in Congress; and in their wake came the professional politician, who helped to organise the "pooling" arrangements by which one trade bargained with the other for their common benefit at the expense of the consumer. In 1828 the movement seemed to have reached its climax in what was called the Tariff of Abominations, levying duties averaging over 48 per cent., the highest known in the United States until the McKinley Act of 1890. The agricultural South bitterly resented a system the burden of which fell mainly upon it, while it reaped none of the benefits of fiscal favouritism. Between 1832 and 1842 these imposts were reduced to a general level of 20 per cent. There seems to be no doubt that, even at this period, the cotton and woollen manufactures, in particular, had reached a state of development making artificial aid quite unnecessary in the Protectionist sense of the word. In the last-named year the average duty was, however, raised to 32 per cent.

From 1846 to 1860 a period of relative Free Trade supervened, being initiated by the Walker Tariff. The adoption of Free Trade in England in 1846 and the following years, opening the British market for American agricultural products, hastened and supported this beneficent change. An element of Protection remained, the prevailing rate on dutiable imports averaging 25 per cent.; but it

was incidental, the professed aim being a tariff for revenue only. So satisfactory were the results, and so general the acquiescence, that, as Mr. Blaine himself admitted, "in 1856 a Protective tariff was not even suggested or even hinted by any one of the three parties which presented Presidential candidates." In ten years the national wealth increased 126 per cent., and the railway mileage of the country over 300 per cent.

(B) THE WAR TARIFFS.

The anti-slavery crisis now threw its shadow over the whole Republic, and the Civil War brought back Protection with a sweep. In 1860 Mr. Lincoln was elected President; and the Protectionist movement was one of the most considerable agents which precipitated the developments consequent upon that fateful election. The State of Pennsylvania, which had been Democratic for thirty years, was weak on the question of slavery, but strong in its desire for artificial aid to its manufactures. The capture of the State was necessary to the Republicans; and it was won over by an open tariff bribe. A series of War tariffs followed; and Mr. Maurice Low, in his review of "Protection in the United States," all too mildly speaks of them as "necessarily crude and unscientific." They displayed, in fact, the grossest vagaries of political corruption under cover of a desperate national emergency. "At the first sign of the coming trouble," says Mr. Hermann Lieb, in his volume on "The Protective Tariff," "when the eyes of the people were turned in another direction, and steadily fixed upon the endangered flag of the country, the agents of special interests filled the Congressional lobbies, urging, cajoling, and threatening the representatives into passing Bills to protect this, that, and the other manufactured

commodities—of course, all under the patriotic pretence of providing the Government with ample revenue for impending emergencies." Immense sums of money had to be raised for the purposes of the Northern armies; and, afterwards, the demands for payment of interest and reduction of debt, under a federal system which made difficult a general direct taxation,* conspired with the power of the manufacturing magnates to saddle a high tariff upon the back of the American people for thirty years. During the war internal taxation had been greatly increased; and the industries which were subject to the competition of foreign imports had obtained a corresponding increase of import duties by way of compensation. At the same time enormous changes from varied rates to specific duties were made, each concealing a surreptitious increase. In 1862 the duties were raised to an average of 32 per cent., and in 1864 to 47 per cent. At the close of the war the internal revenue taxes, the operation of which could not be mistaken by the most ignorant citizen, were repealed; but the import duties were continued, and, through bargaining between manufacturers, were applied to raw as well as manufactured material, so as to produce an appearance of equity; for instance, wool producers obtained Protection on condition of supporting duties in favour of the manufacturers of woollens and cloth.

* A general income-tax would, even in the early days of the Union, have produced so much revenue as to check, if not altogether prevent, the development of the protective system. The Federal Constitution provides that "all duties, imposts, and excises shall be uniform throughout the United States," and "no direct tax shall be laid unless in proportion to the Census." Income-tax was imposed by Congress for the first time for the purposes of the war between 1863 and 1872. It was not imposed on the different States in proportion to their various populations, but the Supreme Court ruled that as it was not a direct tax, but an excise, it was not unconstitutional. Congress in 1894 established a uniform 2 per cent. tax on incomes exceeding £800 a year, and on the net incomes of corporations. But this was declared by a narrow majority of the Supreme Court to be a direct tax, not proportioned according to the population, and therefore unconstitutional. The heavy surpluses incidental to recent high tariffs have checked all efforts since then to establish an income-tax.

No extravagance of privilege seems to have been impossible at this time. The prosperous copper mine owners of Michigan demanded and obtained successive increases of the tariff, and for ten years were enabled to export and sell their metal in London at two-thirds of the price which they maintained at home, until a circular re-import of their own produce, either raw or manufactured into brass goods, checked their career of plunder. "The watered shares of the Calumet and Hecla Mine," says Mr. Franklin Pierce ("The Tariff and the Trusts"), "produced at one time quarterly dividends of 133⅓ per cent.," and even during the nineties paid dividends varying from 60 to 140 per cent. The duty upon steel rails from 1870 to 1883 was equal to the whole cost of production; and the selling price was more than double the price in England—a fact to no small extent responsible for the flimsy construction of many American railways, and the heavy subsequent expenditure on rebuilding. Under this upas-tree, millionairessdom grew apace. When, in 1870 and 1872, many foodstuffs were put upon the free list, and a reduction of 10 per cent. was effected upon most of the Protective duties, the manufacturers openly confessed that they were meeting the rising indignation of the consumers in their own interests. "We wanted the tariff to be made by our friends," they said. Three years later, in fact, many of the higher duties were re-imposed; and in 1883 woollen and cotton dress goods were subjected to an impost of from 35 to 40 per cent.

In 1884 the Democrats, who had been out of power for twenty-four years, secured the election of Mr. Grover Cleveland as President, a victory of which Mr. Maurice Low says: "It is admitted that a growing feeling in favour of a reduction of duties that were regarded as oppressive and unjust, and in the interest of manufacturers as opposed to the best interests of the people at large, was one of the

most potent influences." In his Treasury Report of 1885, Mr. Secretary Manning said: "Like our currency laws, our tariff laws are a legacy of war. If exigencies excuse their origin, their defects are unnecessary after twenty years of peace. The highest endurable rates of duty, which were adopted in 1862-4 to off-set internal taxes upon almost every taxable article, have in most cases been retained now from fourteen to twenty years after every such internal tax has been removed. They have been retained upon articles used as materials for our own manufactures (in 1884 adding \$30,000,000 to their cost), which, if exported, compete in other countries against similar manufactures from untaxed materials. Some rates have been retained after ruining the industries they were meant to advantage." Mr. Cleveland, however, had not the support of both Houses of Congress, and was, therefore, impotent as regards the tariff.

(C) UNDER THE SHADOW OF THE TRUSTS.

In 1888 the Republicans secured the return of Mr. Harrison; and two years later the famous McKinley Tariff, which established the highest duties hitherto known, was enacted. The Republican party had secured its return to power by promising a reduction of duties. In fact, however, the wool and woollen schedules were increased; a heavy duty was imposed upon tin-plate; a new barrier was set up against the importation of Canadian farm products; and a bounty upon native sugar was established. The average *ad valorem* duty on dutiable imports was raised to 15 per cent.; but the particular evil of the tariff was its combination of specific and *ad valorem* duties in such a way as to lay the heaviest burden upon the cheaper classes of goods. Its authors boasted that this

was the most thoroughly scientific measure of Protection yet seen. The real meaning of the boast was that the system of bargaining between rival interests under cover of a Congressional Commission had now been brought to a high degree of perfection. One great feature of Protectionist development had yet to appear in its maturity. It is from this time that the great growth of Trusts under the shadow of the tariff dates in the United States.

The country was now thoroughly angry at the deception to which it had been subjected; and Mr. Cleveland was returned to power in 1892 with a Democratic majority in both Houses. The manufacturers within the Democratic party had, however, become to some extent affected by the tariff disease; and the Wilson Act of August, 1894, wrought only relatively slight reductions in the average rate of duty. A commercial crisis, due largely to the unsoundness of the currency system, a minor factor being the perpetual uncertainty caused by constant tariff changes, disturbed the life of America through the years 1895 and 1896. In July, 1897, Mr. McKinley having been returned to power, the Dingley Tariff was enacted, with the specific object of "encouraging the industries of the United States." This raised the average duties at a bound to over 70 per cent., while hundreds of articles were so heavily taxed that importation was practically prohibited. The agricultural schedules were especially aimed at Canada, and opened a period of tariff warfare between the Republic and the Dominion. It was, in fact, in retaliation against the Dingley duties that Canada established the first Preferential Tariff of $12\frac{1}{2}$ per cent. in favour of British imports, this rate being increased to 25 per cent. in 1898, and to $33\frac{1}{2}$ per cent. in 1900.

A long period of rising prices, culminating in the very severe commercial and financial crisis of 1908 and 1909, which created widespread misery in the United States,

brought the tariff into thorough disrepute, and promises of a downward revision were extorted from the Republican party. These promises, however, went for very little after the return of Mr. Taft to the White House in 1909. A committee of the House of Representatives was appointed to obtain information as to the cost of production in foreign countries, by way of making the tariff respond to the Republican principle that "duties should equal the difference between the cost of production at home and abroad, together with a reasonable profit to American industries." The American Consul in Birmingham, in asking local manufacturers for information, told them that a reduction of duties was contemplated, and that it was in their interests that they should assist him. The protected manufacturers at once started an organised movement to check the proposed revision; and they were so successful that the Payne Tariff presents no substantial change from the former scales of duty. It develops further the distinction between maximum and minimum rates established in the Dingley Tariff, an attempt at discrimination the weakness of which was exhibited during the spring of 1910 in the negotiations with Canada. A great fight took place over the duty on hides. It was clearly proved that the great firms composing the Beef Trust, which control directly more than half of the hide supplies of the States, and indirectly a good deal more, were the only beneficiaries under this duty. The House of Representatives, therefore, cancelled it; but it was restored by the Senate, and so it remains.

It is an open question to what extent combines, pools, corners, and other alliances based upon agreements for the fixing of selling prices, the removal of competition, and the regulation of output, have been created by the Tariff. The parallel growth of industrial monopoly and of import duties is, however, of undeniable significance. The

Census report of 1900 contained a list of 185 industrial combinations governing 2,040 plants, with a capital of \$1,436,000,000, and 400,046 workers. Of the 185 concerns, 120 had come into being since the establishment of the Dingley Tariff. A very great development of Trusts has since occurred; and yet so extensive are the agricultural and industrial possibilities of the United States that the movement is probably still in its infancy. Mr. J. A. Hobson, in his "Evolution of Modern Capitalism," thinks that local combinations in retail trade probably exercise a larger and wider influence on prices than do the great Trusts, and that, in so immense an area, it is not easy to destroy effective competition except in small trades. "Upon the whole," he says, "it would be safer to describe the tariff as the foster-mother than the mother of Trusts." The Minority Report of the Committee which drew up the Dingley Tariff Bill took a stronger view of the matter.

"It is not more certain that Protection encourages extravagance than it is that it breeds unlawful combinations of capital. Indeed, Protection is justified upon the avowed theory that competition should be restricted. True enough, it assumes the patriotic pretence that foreign competition ought not to be permitted against our home industries: but they little understand the selfishness of that human nature which relies upon the favouritism of the law to increase its fortune who suppose that these men, having secured themselves against foreign competition by the favour of Congress, will fail to secure themselves against domestic competition by voluntary combinations among themselves.

"The majority of the Committee seem to think it an easy matter for us to build a tariff wall about our borders, and thus prevent the foreigners from trading with us; but they forget that the same wall which shuts the foreigner out shuts us in, and that regulations to prevent the foreigner from trading with us must at the same time prevent us from trading with the foreigner."

What is undeniable is that, in many instances, the import duties have been the most general inducement and support not only for legitimate combination in industry, but for

corrupt or quasi-corrupt monopoly; that they have produced a vicious circle in the relations of Congress to trade, creating conspiracies of plunder among manufacturers, who, especially by contributions to the party campaign funds, prevent any effective reduction of the tariff. It is fair to say that, while the Trust problem would in any case have arisen ultimately in the life of America, the problem as it stands owes its dimensions and its most evil features to the operation of the Protective tariff.

III.—GERMANY: (A) BISMARCK'S VOLTE FACE.

THE lengthy and difficult history of Protectionism in Germany is throughout complicated by political considerations which have almost always been regarded as more important than the establishment of a commercial system sound in itself.

The spirit of paternal regulation has, of course, deep roots in German history. The great merchant guilds and the free cities in which it was most finely expressed were ruined by the Thirty Years' War of the 17th century; but it was revived in more modern form, and to very good effect, by Frederick the Great, so that the dawn of the 19th century found flourishing mining, metal, and textile industries side by side with a robust agriculture. In the first decade, Stein and Hardenberg laid down in Prussia the principles of a moderate Free Trade, which were enacted during the second, with the hope expressed that England would soon follow suit, and the pious intention that foreign manufactures should be imported under the lightest duties "for all time." (Dawson: "Protection in Germany," p. 15). Prussia's example was copied by one State after another; and it may be said that, down to the eve of the Franco-German War, Free Trade tendencies were supreme—as well they might be, considering how

greatly the establishment, between 1819 and 1836, of the Zollverein, or Customs Union, in which practically all the other German States except Austria gradually associated themselves with Prussia, contributed both to the growth of a national unity and to the prosperity of each several part. "All commercial barriers between State and State were thrown down; internal Customs houses were destroyed; the vast army of officials was dismissed; and a common external tariff was arranged. Not only was an immense impulse thus given to German trade, but also to the sentiment and fact of German unity. The construction of railways, roads, and canals; the improvement of postal arrangements; the promotion of commercial intercourse came in the wake of the Zollverein, and silently prepared the way for organic political changes in the future" (Marriott: "The Remaking of Modern Europe").

The gradual destruction of fiscal separatism in Germany, with its now almost incredible network of tariff barriers, was, in fact, a work of Free Trade almost commensurate in magnitude with that which was being pursued simultaneously across the continent of North America. The country was predominantly agricultural, and its small export trade consisted chiefly of foodstuffs, especially grain and raw material, together with the products of home industries. The few manufacturers who, at the outset, opposed the movement of unification soon found abundant compensation in the extension of their home market by the rapid growth of population; and imports gradually changed from fully manufactured goods to raw and half-manufactured materials and colonial products. The political current of affairs strengthened the Free Trade tendency of the time. So long as they exported, the agricultural class were strongly in favour of a low Zollverein tariff. It was an important part of the policy of Prussia to maintain the contrast between the

high Protectionism of Austria and the low tariff of the other German States. Bismarck afterwards declared that he concluded the important low tariff treaty of 1862 with France chiefly as a weapon against Vienna. But, in the eyes of the world, he stood, in Schäffle's words, as "the political guardian and favourite of the Free Trade party." In 1873 the duties on iron were abolished; and in 1877 they disappeared, only about 5 per cent. of all imports being left subject to duty. It may be said without exaggeration that the German Empire, as we know it, was founded upon Free Trade.

With the Franco-German War the scene is completely transformed. The opening of this terrible struggle brought at once an urgent need for a great expansion of revenue, and a fusion of the hitherto prevailing ideas of the German people in a deep sense of national self-sufficiency. Of the latter factor I need say nothing; as to the former, Bismarck, who hated direct taxation, also saw a constant source of trouble in the so-called matricular contributions of the Federal States; and this was, perhaps, his strongest reason for desiring to develop the Imperial Tariff. Both in the speech from the Throne in February, 1879, and in Bismarck's speeches in the Reichstag, the provision of new sources of revenue for the Imperial Government, so as to relieve the State Governments from their Imperial contributions and certain of the taxes necessary to maintain them, was named as the first object, and the "preservation of the home market for national production" as the second.

A grave commercial crisis followed the war. The huge indemnity received from France was expended mainly in the creation of public works and armaments, giving birth to a class of manufacturers and workers which was to be in succeeding years largely dependent upon Government favours. When the French milliards were spent, the sudden expansion, aggravated by a fever of speculation, was

followed by a hardly less sudden collapse. National industry was dislocated; at the same time the chief foreign market of the empire—France—was desperately impoverished. While England poured her manufactures into both the wounded countries, Russia, America, and India invaded their markets with cheap grain, causing a decline of prices, land values, rents, and agricultural production. Free Trade was condemned as the cause of all this trouble. Bismarck, hitherto partisan of low duties, adroitly reversed his position, and, pointing the “20,000,000 German farmers” to the growth of high tariffs in America, Russia, Austria, and France, persuaded himself that the foreigner would pay the taxes, and his landlord friends that their salvation in future was to be found in Protection. Desperate industrialists demanded a share of State aid; and, for the first time, the lobbies of the Reichstag were the scene of bargaining in the now well-understood American fashion. Accordingly, existing duties on manufactures were raised, and old duties restored. Like a great tidal wave, Germany’s adoption of Protection reacted, firstly upon the neighbouring countries, producing increases of the Russian Tariff in 1881 and 1882, and of the Austrian and French Tariffs in the latter year; then upon the United States (McKinley Tariff, 1890) and the British Colonies; and, finally, came sweeping backward, producing the supplementary German Tariffs of 1885 and 1887. The wheat and rye duties were now tripled; and Bismarck openly expressed the hope that prices would be raised. In fact, the new areas of wheat supply and the improvement of communications caused a continuance of the decline until 1891, although meat prices were rising steadily during the ’eighties. Since that time, outside of Free Trade England, there has been a general increase in the cost of the necessaries of life.

(B) THE CAPRIVI TREATIES.

The failure of the new policy is sufficiently marked by its reversal and the negotiation of a series of commercial treaties with Austria-Hungary, Italy, Switzerland, and Belgium in 1892-4, which were in effect until the end of 1903. There were many reasons for this change of front on the part of Count von Caprivi and the Imperial Government; but the decisive factor in the end was a failure of the German harvest in 1891, leading to the threat of famine and serious bread riots in Berlin and other towns. "The grain duties," said the new Chancellor, "are a heavy burden for the State, as they entail a rise in prices of the necessities of life. The raising of these duties to five marks (per double cwt.) strained the bow too much. Their existence thereby became a danger to the State, as they formed a reason for popular agitation. The Government, therefore, decided to reduce them." Protection had also caused unhealthy over-production, leading to periodic crises at home, while foreign retaliation had seriously damaged the export trade. The constitution of the Triple Alliance had provided a political reason for the more liberal policy. For, as the Chancellor said, "when we conclude such an alliance of peace, we cannot carry on a commercial war with our allies." The change was hailed with popular rejoicing; the Emperor well said that millions of people would "sooner or later bless this day," and that Caprivi had "saved the fatherland from evil consequences." But the Agrarians were greatly provoked by the reduction of duties, and Bismarck, from his retirement at Friedrichsruh, denounced the Government for taking "a leap in the dark," and, because it had refused to bargain with interested parties, declared savagely that the authors of the treaties were "privy councillors and officials who are exclusively consumers, and of whom

may be repeated the words of the Bible, 'They sow not, neither do they reap.' " Germany, however, did not quite escape from the costs of her old policy. A bitter tariff war with Russia greatly injured her trade in 1893 and 1894; and the Canadian-British Preference, established in 1898, led to foolish German reprisals, which five years later caused the imposition of a Canadian surtax on German goods, a matter of dispute that has only been recently settled.

The Caprivi treaties gave an immense stimulus to German trade; but they provoked an organised reaction by the Agrarian party, which for many years dominated the politics of the Empire, and the liberal tariff was destroyed in 1902, Protectionism being brought back in an extreme form. The first corn duty, in 1879, of one mark per 100 kilograms, had excited fears which Bismarck ridiculed in the words: "Even the wildest Agrarian would not dream of a duty of 3 marks on corn." Yet Bismarck had himself, in 1885, raised the duty on rye and wheat to 3 marks, and in 1887 to 5 marks; and it was raised further in 1902 to 5½ marks for wheat, and 5 marks for rye. The importation of meat was further checked under pretence of veterinary precautions; and, until the conclusion of the International Sugar Convention, in 1899, the beet sugar producers enjoyed large export bounties. The tariff of 1902 was the result of a formal alliance between the Agrarians and the Protectionist manufacturers which Count von Bülow, who had become Chancellor in 1900, found irresistible. Of 946 classes of imports, only 200 were now free from duty. "Count von Bülow," says Mr. Dawson, "estimated that the new duties would add 17 per cent. to the taxation of agricultural produce, and 6 per cent. to that of industrial goods." The country loudly protested, and there was also some evidence of inter-State opposition; but so strong

was the Protectionist combination in the Reichstag that the provision for the allocation of any increase in revenue from food duties to the State Pensions Fund for widows and orphans can only be regarded as an insolent pretence of concession.

The Tariff Law of December, 1902, was specifically designed with the intention of raising food prices. "A means whereby the agricultural interests are enabled to cover their cost of production is to be found," says the official explanation, "under the given circumstances, by creating a factor which will determine the inland selling price through relative protective duties. Although this means, as is shown by the fluctuations of prices of our wheat during the last twenty years, does not always guarantee remunerative prices, it still brings about generally improved inland rates. Inland prices are raised, so far as a consideration of the circumstances of the last ten years will allow us to judge, in proportion to the duties." Statistics are then given which, as the official statement says, "show that the difference between the inland price and the price of foreign wheat (exclusive of duty) varies according to the amount of duty. It is, however, expected that a raising of duties will favourably effect our internal agricultural interests."

(C) CARTELLS AND "DUMPING."

In the tariff of 1906, it was the turn of the great manufacturers and the industries which provided them with raw material to press for further protection. This pressure was naturally the strongest on the part of those groups—the blast furnace and steel converting industries, in particular—which had formed, or were forming, themselves into cartells, with a view to the exploitation of parliamentary opportunities, and to the concentration of processes

in such a way that Tariff privileges could be allotted most easily to the most powerful concerns. Throughout the whole structure of industrial production, a contest was set up between different interests. Thus Consul-General Oppenheimer, in one of his valuable reports on the trade of Frankfort, well describes 1906 as the year of the "price struggle between materials and manufactures." For instance, the leather trade fought against high prices of hides, its raw material, while its own privileges were fiercely attacked by the bootmakers, who complained of the high prices of leather. The great expansion of the German iron trades during the eighties was much more due to changes in the processes of manufacture than to any help from Protective duties. The Gilchrist-Bessemer process, enabling the conversion of iron containing a high percentage of phosphorus into homogeneous iron, made possible the development of deposits in which Germany is peculiarly rich. This and other improvements led to the grouping together of blast furnaces, steel works, and rolling mills. But no such necessity for combination lay in the manufacture of lighter articles, such as sheets, bars, and wire; and here the Protective tariff was directly instrumental in creating combination. As cartells extended, and limited the influence of competition upon prices, it became possible, in the middle of the 'nineties, to take full advantage of the tariff in favour of the few combination works producing large, heavy articles. The smaller concerns, purely rolling mills, had then to buy their pig iron and billets from the larger concerns at high prices; and at the same time they were handicapped in the purchase of fuel as compared with the large combined iron and steel works which owned their own collieries and artificially maintained the outside price of coal. If pig iron and coal could have been freely imported, there would be a natural remedy to the situation. As it is,

many of the purely rolling mills have had to close down or to fall into the arms of the larger combined works. This is a type of a whole series of conflicts which have been produced by the Protectionist system through the advantage it gives to the larger capitalists. Combination in the lower trades either forces a self-preserving combination in the finishing trades—which, however, is much more difficult to establish and maintain there—or it kills them by the advantage it gives the foreigner in finishing processes.

Another result, better known in England, both in the case of Germany and in the United States, is that known in Tariff Reform jargon as “dumping.” The protected large-scale manufacturers have found it most immediately profitable to maintain high prices at home and to sell their surplus at any price in foreign markets. The Free Trade competitor has a double advantage from this unhealthy process. A great series of German manufactures have to buy the half-worked material, such as billets, ingots, bars, plates, rolled wire, and sheets which they need for higher types of goods, at an artificially high price, while their foreign competitors, under a free import system, obtain these goods at an artificially low price. Thus British sheet-mills and shipbuilding works, and Dutch and Belgian wire-drawing and wire-nail mills have been given an advantage over the similar German trades, with consequences which are a perpetual cause of complaint in Germany—an advantage that has gone far to neutralise the superior training of German engineers and the excellent co-operation of science and manufacture in the Empire. The only branch of the German chemical industries which has enjoyed Protection in recent years—the soda trade—shows the same artificial amalgamation of processes, and excites the same complaints of the artificial maintenance of high prices in raw material;

and in the textile industries the spinning cartell has produced a like antagonism of interest.

It is significant that in Germany there has never been any such pretence as in the United States of maintaining by means of the tariff a high native standard of living as against the competition of foreign low-grade labour. The highest point of corn prices brought no considerable increase in wages. The coal miners, by means of a great strike, obtained a considerable rise of wages between 1888 and 1890, which, however, they soon lost; and it is admitted that the general rise in wages during the last few years has afforded a barely sufficient compensation, and sometimes no compensation at all, for the increase in the prices of food and other necessities which followed the Tariff of 1906. German Protectionism was singularly unequal to British Free Trade in softening the effects of the international crisis of the following two years. Herr Gothein estimates that the duties on rye and wheat represent a burden of from $47\frac{1}{2}$ to 50 marks per annum for a family of five, and the duty on meat a burden of 61 marks—a tax of £5 10s. a year on these two articles alone out of the earnings of the average working-class family, already much smaller than those of the average British family. He attributes to Protective duties a large share of the responsibility for the high infant mortality rates of Germany, the prevalence of dear money, and a general hunt after State patronage, which makes the banks, the railway organisation, and the great body of the beaureaucracy parties to the maintenance of a Tariff that injures their healthy development.

IV.—SUMMING-UP

THE most important motives and methods of the growth of Protectionist systems may be summed up as follows :—

1. In old lands, Protectionist tariffs have historical roots in mediæval paternalism and ancient fallacies as to the nature of foreign trade. Generally, and especially in new lands, they represent a crude reaction against some of the consequences of the Industrial Revolution, stimulated by prejudice against foreign Governments and trade competitors. Infant industries, it is thought, must be helped by off-setting the advantage of older countries in costs of production. Experience shows, however, that the privileged trades, as they pass from infancy, everywhere demand more Protection instead of being content with less. There is no case in the world's history of national industries that have flourished as England's have done for sixty years, under Free Trade, being thrown back into a Protectionist system.

2. The development of Protection is favoured by the weakness of the national tradition and the weakness of popular control of the central legislature in modern Federal States. It is everywhere encouraged by the greater ease of imposing indirect (that is, invisible) taxation, especially where direct taxation is already heavy, and by the greater ease of collecting Customs duties; and these factors become particularly strong in Federal Unions which have to procure a large and increasing revenue outside that of the individual States.

3. These exigencies are felt with added force during and after a time of war, when the revenue must be suddenly and greatly increased, and heavy interest on war debt is added to the deadweight of armaments.

4. International antagonism aggravates the spasmodic growth of tariffs. Sometimes they are created or used purely as offensive weapons for ends mainly political. Always they tend to set an evil example and to produce evil reactions.

5. But the chief universal motive of Protection is the direct demand, first of individual producers, then of more and more elaborately organised and powerful groups, for State favour in the shape of direct or indirect subsidy. This is the main cause of the unhealthy growth of Trusts, and is the fertile source of corrupt bargaining, bribery, and political demoralisation. While the whole fabric of public life is thus injured, the growth of industry is distorted, injustice and antagonism being created between different groups of producers as well as between producer and consumer.

6. Panics due to the periodical crises in trade and finance are favourite occasions for jockeying a reluctant people into accepting a new dose of Protection.

7. Tariff increases usually, but not universally, represent a maximum point of foreign competition, whether in agriculture or industry. They always tend, however, to spread throughout the field of production; and there is no warrant for the idea that, once the principle is established, any class of goods (such as food stuffs or raw materials) can be kept free of taxation.

8. Labour interests have only the slightest part in the growth of tariffs, and this fact is reflected in the almost universal opposition of organised labour to Protection. The Australian Commonwealth is the one considerable exception; but all the circumstances there are exceptional.

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